

Kentucky Tax Alert



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KRC Offers Electronic Filing of 2001 Individual Income Tax Returns

In cooperation with the Internal Revenue Service (IRS), KRC offers statewide electronic filing of 2001 individual income tax returns. This is the eighth year KRC has offered statewide electronic filing.

Electronic filing offers a faster turnaround time for refunds as opposed to paper returns mailed to KRC and processed manually. With electronic filing, refund checks arrive in taxpayers' mailboxes in an average of two to three weeks. Taxpayers choosing the direct deposit option receive their refunds usually in less than 10 days.



Electronic filing for Kentucky returns is available to all interested parties who have been accepted in the federal electronic filing program and transmit returns to the IRS Cincinnati Service Center. To participate, applicants should submit Form 8633, Application to Participate in the Electronic Filing Program, to the IRS. No application form is necessary for KRC. The first day KRC will accept electronically filed returns is January 11, 2002.

KRC offers direct deposit of refunds into taxpayers' accounts at banks or other financial institutions. Taxpayers may select direct deposit for Kentucky refunds whether or not they choose this option for their federal refunds. They may also choose separate accounts for direct deposit of federal and Kentucky refunds.

The approval process for Kentucky electronic filing software packages for 2001 began in November and continues. As software packages are approved, KRC provides a certification letter to developers. KRC suggests that software companies send copies of the acceptance letter to preparers. Preparers who have questions on approved software should call KRC's Electronic Filing Help Desk at (502) 564-5370.

Taxpayers who file their Kentucky returns electronically must complete and sign Form 8453-K, Individual Income Tax Declaration for Electronic Filing. Attach Form W-2/K-2, Wage and Tax Statement, and all supporting schedules to Form 8453-K. Note that W-2s must be attached to the Kentucky Form 8453-K, despite any differing federal treatment of W-2s for electronic filing purposes.

Again during the 2002 filing season, preparers can select the frequency with which they mail completed Forms 8453-K to KRC. Each electronic return originator (ERO) will receive an 8453-K Mailing Election Form which should be completed and returned to KRC. This form allows EROs the option of electing to mail completed Forms 8453-K either after electronic acknowledgment is received from KRC, monthly, quarterly, or at the end of the filing season.

EROs will mail Forms 8453-K to KRC based on their mailing election. Mail Form 8453-K, with all necessary attachments, to Kentucky Revenue Cabinet, P.O. Box 518, Frankfort, KY 40602-0518.

For balance due returns, taxpayers must complete Form 740-V, Kentucky Electronic Payment Voucher. Submit this form, along with the payment, to KRC postmarked on or before April 15, 2002. The amount paid is the amount due on the electronically filed return.

Taxpayers should keep copies of their returns, Form 8453-K, and Form W-2/K-2. Copies of these forms must also be retained by the preparer or transmitter for at least one year.

An electronic return is still considered outstanding until all follow-up documentation is completed and received by KRC. For the 2001 tax year, preparers with clients having outstanding documentation may be suspended from participation in the electronic filing program. Preparers with questions about their participation status should contact the Electronic Filing Help Desk at (502) 564-5370.

To obtain a copy of the Kentucky Handbook for Electronic Filers of Individual Income Tax Returns, or for more information about the electronic filing program, including questions about approved software or participation status, contact KRC's Electronic Filing Help Desk at (502) 564-5370. The handbook is also available on KRC's Web site at <http://revenue.state.ky.us>.

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Report Kentucky Use Tax on Internet, Catalog Sales on Income Tax Forms

Kentucky taxpayers are reminded that a use tax of 6 percent is due and payable for all catalog, Internet, and other retail purchases on which the 6 percent sales tax was not collected.

Kentucky use tax has existed since 1960 as a complement to the sales tax. When states first began imposing sales taxes, it was soon realized that a corresponding use tax was necessary to protect in-state merchants from unfair competition from out-of-state sellers.

The use tax is a 6 percent tax on purchases of tangible personal property from out-of-state retailers for storage, use, or other consumption in Kentucky on which Kentucky's 6 percent sales tax is not charged. This includes purchases from catalogs, Internet, responses to print or broadcast advertisements, in addition to items such as magazine subscriptions, purchases from music or video clubs, and other purchases on which no tax is paid. Without this backstop to the in-state sales tax, purchasers could avoid the 6 percent tax by purchasing from out-of-state catalog or Internet merchants, instead of local ones.

To make payment of this tax more convenient, KRC includes a line for reporting use tax obligations on Form 740 (line 23), Form 740-S (line 19), Form 740-EZ (line 7), and Form 740-NP (line 19). Instructions for computing the amount of use tax due are included with the forms.

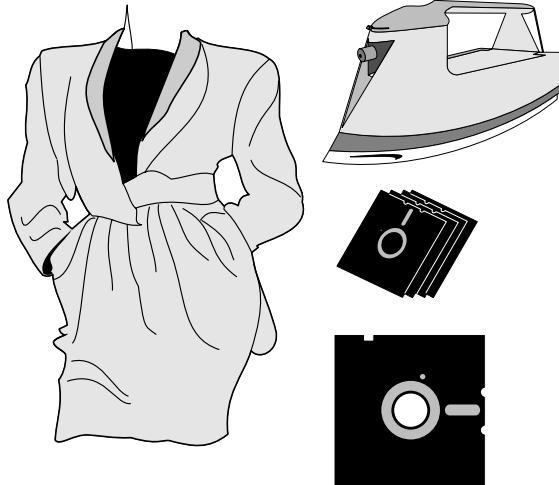
The popularity of catalog purchases and the phenomenal growth in e-commerce have made public understanding of use tax

liability more important than ever. Many traditional merchants have developed their own Web sites to take advantage of the wave of retail trade that is anticipated from the Internet. Therefore, many e-shoppers will notice that the tax is already computed, just as it is when buying items in the local store. However, other online merchants have elected not to charge sales tax to their customers because these merchants are not physically located in Kentucky and are not legally responsible for collecting the tax. When tax is not collected in such cases, **Kentucky purchasers** are responsible for calculating and reporting the 6 percent use tax.

Taxpayers should review their records of online purchases and other purchases from out-of-state sellers to determine if Kentucky use tax is owed on these transactions. The rise in Internet technology provides

consumers with unprecedented shopping opportunities, but it also places a greater burden upon taxpayers to maintain records and calculate tax liabilities. There are efforts underway both at the federal level, and cooperatively among states, to provide a more efficient use tax collection system. However, for the present time, individual taxpayers should be alert to their personal use tax liabilities. Tax professionals should advise their clients accordingly.

For further information regarding the collection and payment of Kentucky use tax, contact KRC's Sales and Use Tax Section at (502) 564-5170 or P.O. Box 181, Frankfort, KY 40602-0181.



KRC Offers Telephone Filing of Individual Income Tax Returns

During the 2002 individual income tax filing season, KRC will again partner with the Internal Revenue Service (IRS) in a joint TeleFile project. TeleFile will be offered statewide and will provide the opportunity for many Kentuckians to file their 2001 federal and Kentucky individual income tax returns via telephone.

Taxpayers who file a federal TeleFile return and meet the guidelines to file a Form 740-EZ may file their Kentucky return using the Federal/State TeleFile System. Taxpayers using TeleFile to file their returns should call the toll-free number provided in the federal TeleFile packet. Both the federal and state returns must be completed in the same call.



After the federal information is entered, the system prompts the user to continue and enter the Kentucky information if the taxpayer is eligible. Much of the data entered for the federal return is used for the Kentucky return. Once the information necessary to calculate Kentucky tax is entered, the amounts are read back for the taxpayer's records and a confirmation number is issued. The data collected during TeleFile calls to the IRS is downloaded to KRC computer systems for complete processing. Kentucky TeleFile users should use Form 740-T to prepare their return for filing via telephone.

Last year, more than 47,000 Kentuckians took advantage of this filing method, many of them selecting the direct deposit option for their refunds. Direct deposit will be available for TeleFile refunds during the 2002 filing season.

KRC Tax Forms Available from *TaxFax*, Internet

The 2001 Kentucky individual income tax forms are available from *TaxFax*, KRC's fax-on-demand system, and from KRC's World Wide Web site.

TaxFax allows callers with touch-tone telephones and fax machines to receive KRC tax forms immediately. Callers without fax machines may use this service to request forms to be mailed.

To use *TaxFax*, dial (502) 564-4459 from any touch-tone telephone. The call does not need to be made from the fax machine which will receive the forms. An automated attendant guides callers through available options, including obtaining a current catalog of available forms with corresponding document numbers. Up to three documents may be ordered per call.

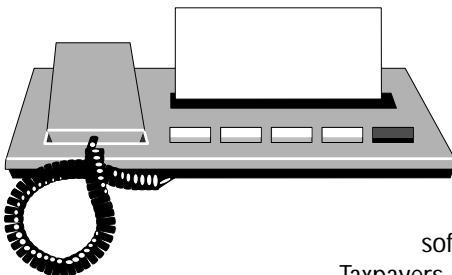
After selecting the documents, callers enter the fax number to which the forms are sent. Next, callers enter a telephone extension number to designate who receives the faxed forms. *TaxFax* then sends the requested documents to the caller.

Practitioners needing large quantities of forms should order Form 40A727, Kentucky Income Tax Forms Requisition, via *TaxFax* and mail the completed form to KRC. Form 40A727 was printed in November's *Tax Alert*.

Forms are also available from KRC's Online Taxpayer Service Center at <http://revenue.state.ky.us>. A link on that page directs users to the forms.

Forms are available as PDF files for all computer system formats which can use Adobe Portable Document Format files. Use of Adobe Acrobat Reader software is necessary to download, view, and print forms. This free software is available from Adobe's Web site at <http://www.adobe.com>. KRC's Web site also contains a link where users may obtain this software.

Taxpayers and preparers are reminded that Kentucky tax forms have been designed for use with KRC's scanning and imaging system. It is vital that only forms provided by KRC, or produced by approved computer software packages, be used. Data must be placed in specific areas of the return to be read correctly by the equipment. Use of photocopies or fax copies may delay processing and, in turn, delay refunds.



Homestead Exemption Remains \$26,800 for 2002 Tax Year



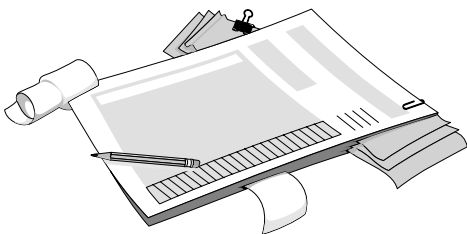
The Homestead Exemption for real property taxes remains \$26,800 for the 2002 tax year. The exemption increased by \$1,400 last year and is recalculated every two years to reflect inflation.

The Homestead Exemption was originally established under a constitutional amendment in 1971 and is prescribed in KRS 132.810. For the 2002 tax year, more than 325,000 elderly or disabled Kentuckians will realize more than \$90 million in property tax savings through the Homestead Exemption.

A person must be at least 65 years old during the tax period or be classified as totally disabled by any public or private retirement system in order to qualify for the Homestead Exemption. Eligible property must also be owned, occupied, and maintained by the taxpayer as a personal residence on the Jan. 1 assessment date. Any qualified person who needs to apply for a Homestead Exemption should contact the property valuation administrator in the county of residence.

Tips for Filing 2001 Individual Income Tax Returns

- ❏ Electronically file your return for the fastest processing. Direct deposit is only available when you electronically file your return using either e-filing, online filing, or telefile.
- ❏ Do not alter wage and tax statements. If all copies of the wage and tax statement (Form K-2) are illegible, the taxpayer's employer must issue a corrected copy. Do not complete and file a return until all proper wage and tax statements are received. Do not substitute wage and tax statements unless repeated efforts to obtain a K-2 from the employer have failed.
- ❏ Use the adhesive mailing label attached to the income tax packet **only** if the name is correct. The label contains precoded information about the taxpayer. Taxpayers receiving labels with an incorrect name should not use these labels. Instead, print the correct information in the space provided on the return. Labels with only an incorrect address may be corrected and used. The labels enable KRC to verify receipt of the return and provide information to taxpayers using KRC's Automated Refund and Tax Information System (ARTIS), (502) 564-1600.
- ❏ Attach a complete copy of the federal return if the taxpayer received farm, business, or rental income or loss.
- ❏ Taxpayers with differences in Kentucky and federal income must file Form 740 and report those differences on Schedule M, Kentucky-Federal Gross Income Modifications.
- ❏ Attach schedules showing any Kentucky net operating loss claimed.
- ❏ Married taxpayers filing separate returns must enter their spouse's complete name and Social Security number (SSN) on page 1 of the return.
- ❏ If Form 2210-K is attached to the return, check the appropriate box on the return.
- ❏ Assemble the tax return properly. Staple returns only once in the upper left-hand corner. Place wage and tax statements horizontally in the center of the return and staple twice in the left margin of page 1 only. Make checks payable to the Kentucky State Treasurer, place on top of the wage and tax statement, and staple once in the left margin of page 1 only.
- ❏ Check the block above the signature line to choose either a complete forms package, or a preprinted label postcard, for your 2002 tax returns that are mailed to you.
- ❏ Enter the telephone number where the taxpayer can be reached weekdays between 8 a.m. and 4:30 p.m. in the appropriate place on Forms 740 and 740-S.
- ❏ Check all names, addresses, and SSNs for accuracy on wage and tax statements, returns, and schedules.
- ❏ Review the individual income tax return for mathematical accuracy and legibility, sign the return, and attach all wage and tax statements (Form K-2) before sealing the envelope. Both husband and wife must sign if filing separately on the combined return or if filing jointly.
- ❏ Keep copies of all state and federal returns. Exact duplicates make correspondence easier should KRC request information about the filed return. Practitioners should provide duplicate copies of returns as a part of the service rendered to clients.
- ❏ Use the blue or yellow envelope included with the income tax packet to mail the return to KRC. Use the yellow envelope for returns with payments enclosed. Use the blue envelope to file refund returns. If using other envelopes or mailing returns in bulk quantities, send returns with payments to ZIP code 40619-0008 and other returns to ZIP code 40618-0006.
- ❏ File returns as soon as possible to avoid the last-minute April rush.
- ❏ Mail completed returns to KRC on a regular basis. If filing returns in bulk quantities, mail no less than weekly.



Court Case Update

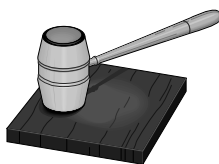
Sales and Use Tax—On November 30, 2001, the Kentucky Court of Appeals rendered a decision in the case of **Revenue Cabinet v. LWD, Inc.**, 2000-CA-001834-MR. At issue in this case was the application of the sales and use tax exemption for occasional sales set forth in KRS 139.470(4) and 139.070(1)(b).

The taxpayer was engaged solely in the business of leasing industrial office equipment. All of the leases were to approximately a dozen sister corporations of the taxpayer, all of which were 100 percent owned by the taxpayer's parent, which owned 100 percent of the stock of the taxpayer. The taxpayer leased numerous individual items to these related corporations on numerous different occasions as part of its ongoing business.

The taxpayer did not include the receipts from these equipment leases in the gross receipts it reported on its monthly sales tax returns. KRC accordingly assessed sales tax in the amount of \$174,051, plus applicable interest.

The taxpayer argued in response to this assessment that the equipment rentals were exempt from tax as an occasional sale as defined in KRS 139.070(1)(b):

- (1) "Occasional sale" includes:
 - (b) Any transfer of all . . . or substantially all the property held or used by a person in the course of such an activity when after such transfer the real or ultimate ownership of such property is substantially similar to that which existed before such transfer.



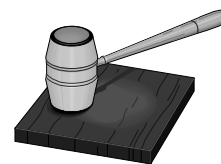
The Kentucky Board of Tax Appeals (KBTA) disagreed and upheld the assessment. The Franklin Circuit Court agreed with the taxpayer, however, and reversed the KBTA.

The Court of Appeals' decision reverses the circuit court and reinstates the decision of the KBTA. The Court of Appeals holds that the occasional sale exemption provided for in KRS 139.070(1)(b) and 139.470(4) could not be applied to the multiple, continuous, and ongoing leasing activities that took place in this case.

This decision also decides a procedural issue KRC had raised. The taxpayer had not joined the KBTA as a party in its appeal of the KBTA's decision to the circuit court and KRC argued that this required dismissal of the appeal.

Affirming the circuit court's denial of KRC's motion to dismiss, the Court of Appeals ruled that the taxpayer's appeal was not procedurally deficient because by stating the name and address of the KBTA in the petition commencing the appeal and by serving a copy of that petition upon the KBTA, the taxpayer had complied with the controlling statutory provision, KRS 13B.140(1).

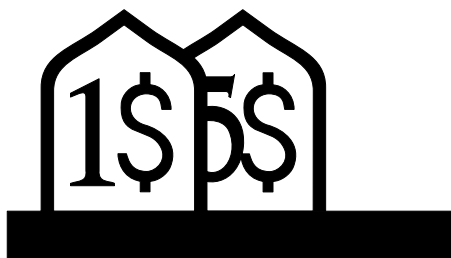
The taxpayer has filed a petition for rehearing in this case. Therefore, the Court of Appeals' November 30, 2001, opinion is not yet final.



KRC Sets 2002 Tax Interest Rate at 6 Percent

Pursuant to KRS 131.183(1), the 2002 tax interest rate charged by KRC on unpaid and delinquent taxes has been set at 6 percent. Where applicable, the same rate is paid on refunds issued by KRC.

The rate, effective Jan. 1, 2002, is based on the prime interest rate charged by Kentucky banks during October 2001. A recent survey of Kentucky banks showed that the prevailing average prime interest rate in October was 5.7 percent, which was rounded by law to the nearest full percent (6 percent).



T A X C A L E N D A R 2 0 0 2

NOTE: If a return due date falls on a scheduled holiday or weekend, returns will be due the next working day.

January	15	Estimated Corporation Income Tax/One Half Est. (FY ending 7/31)
	15	Estimated Corporation Income Tax/One Fourth Est. (FY ending 1/31)
	15	Estimated Corporation Income Tax/One Fourth Est. (FY ending 4/30)
	15	Estimated Tax/Individuals/One Fourth Est.
	21	Coal Severance Tax Returns (December Payment)
	21	Oil Production Tax Returns (December Payment)
	21	Monthly Sales Tax Returns (December Payment)
	21	Quarterly Sales Tax Returns
	21	Annual Sales Tax Returns
	21	Health Care Provider Tax Returns (December Payment)
	25	Monthly Motor Fuels Tax Returns (December Payment)
	25	Monthly Sales Tax Returns (Accelerated Payment)
February	1	Income Tax Withholding Returns/Electronic Funds Transfer (EFT) Filers/Annual Reconciliation
	1	Minerals and Gas Severance Tax Returns (December Payment)
	1	Monthly Income Tax Withholding Returns (December Payment and K-2s)
	1	Quarterly Income Tax Withholding Returns (Quarterly Payment and K-2s)
	1	Annual Income Tax Withholding Returns (Annual Payment and K-2s)
	1	Annual Report of Distilled Spirits in Bonded Warehouses (as of 1/1/02)
	11	Twice-Monthly Income Tax Withholding Returns (January 1 - January 31 Payment/EFT Payment)
	15	Estimated Corporation Income Tax/One Half Est. (FY ending 8/31)
	15	Estimated Corporation Income Tax/One Fourth Est. (FY ending 2/28)
	15	Estimated Corporation Income Tax/One Fourth Est. (FY ending 5/31)
	15	Monthly Income Tax Withholding Returns (January Payment)
	20	Coal Severance Tax Returns (January Payment)
	20	Oil Production Tax Returns (January Payment)
	20	Monthly Sales Tax Returns (January Payment)
	20	Health Care Provider Tax Returns (January Payment)
	25	Twice-Monthly Income Tax Withholding Returns (February 1 - February 15 Payment/EFT Payment)
	25	Monthly Motor Fuels Tax Returns (January Payment)
	25	Monthly Sales Tax Returns (Accelerated Payment)
March	1	Minerals and Gas Severance Tax Returns (January Payment)
	1	Watercraft Property Tax Return (as of 1/1/02)
	11	Twice-Monthly Income Tax Withholding Returns (February 16 - February 28 Payment/EFT Payment)
	15	Estimated Corporation Income Tax/One Half Est. (FY ending 9/30)
	15	Estimated Corporation Income Tax/One Fourth Est. (FY ending 3/31)
	15	Estimated Corporation Income Tax/One Fourth Est. (FY ending 6/30)
	15	Monthly Income Tax Withholding Returns (February Payment)
	15	Bank Franchise Tax Returns
	20	Coal Severance Tax Returns (February Payment)
	20	Oil Production Tax Returns (February Payment)
	20	Monthly Sales Tax Returns (February Payment)
	20	Health Care Provider Tax Returns (February Payment)
	25	Twice-Monthly Income Tax Withholding Returns (March 1 - March 15 Payment/EFT Payment)
	25	Monthly Motor Fuels Tax Returns (February Payment)
	25	Monthly Sales Tax Returns (Accelerated Payment)
April	1	Minerals and Gas Severance Tax Returns (February Payment)
	1	Electric Plant Board Property Tax Returns (as of 1/1/02)
	10	Twice-Monthly Income Tax Withholding Returns (March 16 - March 31 Payment/EFT Payment)
	15	Estimated Corporation Income Tax/One Half Est. (FY ending 10/31)
	15	Estimated Corporation Income Tax/One Fourth Est. (FY ending 4/30)
	15	Estimated Corporation Income Tax/One Fourth Est. (FY ending 7/31)
	15	Monthly Income Tax Withholding Returns (March Payment)
	15	Quarterly Estimated Tax Returns/Individuals (One Fourth Payment)
	15	Annual Individual Income Tax Returns
	22	Monthly Sales Tax Returns (March Payment)
	22	Quarterly Sales Tax Returns
	22	Coal Severance Tax Returns (March Payment)
	22	Oil Production Tax Returns (March Payment)
	22	Health Care Provider Tax Returns (March Payment)
	25	Twice-Monthly Income Tax Withholding Returns (April 1 - April 15 Payment/EFT Payment)
	25	Monthly Motor Fuels Tax Returns (March Payment)
	25	Monthly Sales Tax Returns (Accelerated Payment)

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May	1	Income Tax Withholding Returns/Electronic Funds Transfer (EFT) Filers/First Quarter Reconciliation
	1	Quarterly Income Tax Withholding Returns
	1	Minerals and Gas Severance Tax Returns (March Payment)
	1	Public Service Company Property Tax Returns (as of 12/31/01)
	1	Railroad Car Line Property Tax Returns (as of 12/31/01)
	10	Twice-Monthly Income Tax Withholding Returns (April 16 - April 30 Payment/EFT Payment)
	15	Intangible Personal Property Tax Return (Taxpayer will be billed later)
	15	Tangible Personal Property Tax Return (Taxpayer will be billed later)
	15	Estimated Corporation Income Tax/One Half Est. (FY ending 11/30)
	15	Estimated Corporation Income Tax/One Fourth Est. (FY ending 5/31)
	15	Estimated Corporation Income Tax/One Fourth Est. (FY ending 8/31)
	15	Monthly Income Tax Withholding Returns (April Payment)
	20	Monthly Sales Tax Returns (April Payment)
	20	Coal Severance Tax Returns (April Payment)
	20	Oil Production Tax Returns (April Payment)
	20	Health Care Provider Tax Returns (April Payment)
	27	Twice-Monthly Income Tax Withholding Returns (May 1 - May 15 Payment/EFT Payment)
	27	Monthly Motor Fuels Tax Returns (April Payment)
	27	Monthly Sales Tax Returns (Accelerated Payment)
June	3	Minerals and Gas Severance Tax Returns (April Payment)
	10	Twice-Monthly Income Tax Withholding Returns (May 16 - May 31 Payment/EFT Payment)
	17	Estimated Corporation Income Tax/One Half Est. (FY ending 12/31)
	17	Estimated Corporation Income Tax/One Fourth Est. (FY ending 6/30)
	17	Estimated Corporation Income Tax/One Fourth Est. (FY ending 9/30)
	17	Estimated Tax/Individuals/One Fourth Est.
	17	Monthly Income Tax Withholding Returns (May Payment)
	20	Monthly Sales Tax Returns (May Payment)
	20	Coal Severance Tax Returns (May Payment)
	20	Oil Production Tax Returns (May Payment)
	20	Health Care Provider Tax Returns (May Payment)
	25	Twice-Monthly Income Tax Withholding Returns (June 1 - June 15 Payment/EFT Payment)
July	25	Monthly Motor Fuels Tax Returns (May Payment)
	25	Monthly Sales Tax Returns (Accelerated Payment)
	1	Minerals and Gas Severance Tax Returns (May Payment)
	1	Cigarette License Annual Renewal Applications and License Fee
	10	Twice-Monthly Income Tax Withholding Returns (June 16 - June 30 Payment/EFT Payment)
	15	Estimated Corporation Income Tax/One Half Est. (FY ending 1/31)
	15	Estimated Corporation Income Tax/One Fourth Est. (FY ending 7/31)
	15	Estimated Corporation Income Tax/One Fourth Est. (FY ending 10/31)
	15	Monthly Income Tax Withholding Returns (June Payment)
	22	Coal Severance Tax Returns (June Payment)
	22	Oil Production Tax Returns (June Payment)
	22	Monthly Sales Tax Returns (June Payment)
August	22	Quarterly Sales Tax Returns
	22	Health Care Provider Tax Returns (June Payment)
	25	Twice-Monthly Income Tax Withholding Returns (July 1 - July 15 Payment/EFT Payment)
	25	Monthly Motor Fuels Tax Returns (June Payment)
	25	Monthly Sales Tax Returns (Accelerated Payment)
	31	Income Tax Withholding Returns/Electronic Funds Transfer (EFT) Filers/Second Quarter Reconciliation
	31	Minerals and Gas Severance Tax Returns (June Payment)
	31	Quarterly Income Tax Withholding Returns
	12	Twice-Monthly Income Tax Withholding Returns (July 16 - July 31 Payment/EFT Payment)
	15	Estimated Corporation Income Tax/One Half Est. (FY ending 2/28)
	15	Estimated Corporation Income Tax/One Fourth Est. (FY ending 8/31)
	15	Estimated Corporation Income Tax/One Fourth Est. (FY ending 11/30)
	15	Monthly Income Tax Withholding Returns (July Payment)
	20	Coal Severance Tax Returns (July Payment)
	20	Oil Production Tax Returns (July Payment)
	20	Monthly Sales Tax Returns (July Payment)
	20	Health Care Provider Tax Returns (July Payment)
	26	Twice-Monthly Income Tax Withholding Returns (August 1 - August 15 Payment/EFT Payment)
	26	Monthly Motor Fuels Tax Returns (July Payment)
	26	Monthly Sales Tax Returns (Accelerated Payment)

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September	2	Minerals and Gas Severance Tax Returns (July Payment)
	10	Twice-Monthly Income Tax Withholding Returns (August 16 - August 31 Payment/EFT Payment)
	16	Estimated Corporation Income Tax/One Half Est. (FY ending 3/31)
	16	Estimated Corporation Income Tax/One Fourth Est. (FY ending 9/30)
	16	Estimated Corporation Income Tax/One Fourth Est. (FY ending 12/31)
	16	Estimated Tax/Individuals/One Fourth Est.
	16	Monthly Income Tax Withholding Returns (August Payment)
	20	Coal Severance Tax Returns (August Payment)
	20	Oil Production Tax Returns (August Payment)
	20	Monthly Sales Tax Returns (August Payment)
	20	Health Care Provider Tax Returns (August Payment)
	25	Twice-Monthly Income Tax Withholding Returns (September 1 - September 15 Payment/EFT Payment)
	25	Monthly Motor Fuels Tax Returns (August Payment)
	25	Monthly Sales Tax Returns (Accelerated Payment)
October	1	Minerals and Gas Severance Tax Returns (August Payment)
	10	Twice-Monthly Income Tax Withholding Returns (September 16 - September 30 Payment/EFT Payment)
	15	Estimated Corporation Income Tax/One Half Est. (FY ending 4/30)
	15	Estimated Corporation Income Tax/One Fourth Est. (FY ending 1/31)
	15	Estimated Corporation Income Tax/One Fourth Est. (FY ending 10/31)
	15	Monthly Income Tax Withholding Returns (September Payment)
	21	Coal Severance Tax Returns (September Payment)
	21	Oil Production Tax Returns (September Payment)
	21	Monthly Sales Tax Returns (September Payment)
	21	Quarterly Sales Tax Returns
	21	Health Care Provider Tax Returns (September Payment)
	25	Twice-Monthly Income Tax Withholding Returns (October 1 - October 15 Payment/EFT Payment)
	25	Monthly Motor Fuels Tax Returns (September Payment)
	25	Monthly Sales Tax Returns (Accelerated Payment)
November	1	Income Tax Withholding Returns/Electronic Funds Transfer (EFT) Filers/Third Quarter Reconciliation
	1	Minerals and Gas Severance Tax Returns (September Payment)
	1	Quarterly Income Tax Withholding Returns
	11	Twice-Monthly Income Tax Withholding Returns (October 16 - October 31 Payment/EFT Payment)
	15	Estimated Corporation Income Tax/One Half Est. (FY ending 5/31)
	15	Estimated Corporation Income Tax/One Fourth Est. (FY ending 2/28)
	15	Estimated Corporation Income Tax/One Fourth Est. (FY ending 11/30)
	15	Monthly Income Tax Withholding Returns (October Payment)
	20	Coal Severance Tax Returns (October Payment)
	20	Oil Production Tax Returns (October Payment)
	20	Monthly Sales Tax Returns (October Payment)
	20	Health Care Provider Tax Returns (October Payment)
	25	Twice-Monthly Income Tax Withholding Returns (November 1 - November 15 Payment/EFT Payment)
	25	Monthly Motor Fuels Tax Returns (October Payment)
	25	Monthly Sales Tax Returns (Accelerated Payment)
	30	Minerals and Gas Severance Tax Returns (October Payment)
December	10	Twice-Monthly Income Tax Withholding Returns (November 15 - November 30 Payment/EFT Payment)
	16	Estimated Corporation Income Tax/One Half Est. (FY ending 6/30)
	16	Estimated Corporation Income Tax/One Fourth Est. (FY ending 3/31)
	16	Estimated Corporation Income Tax/One Fourth Est. (FY ending 12/31)
	16	Monthly Income Tax Withholding Returns (November Payment)
	20	Coal Severance Tax Returns (November Payment)
	20	Oil Production Tax Returns (November Payment)
	20	Monthly Sales Tax Returns (November Payment)
	20	Health Care Provider Tax Returns (November Payment)
	25	Twice-Monthly Income Tax Withholding Returns (December 1 - December 15 Payment/EFT Payment)
	25	Monthly Motor Fuels Tax Returns (November Payment)
	25	Monthly Sales Tax Returns (Accelerated Payment)

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2001 Federal/Kentucky Individual Income Tax Differences

Kentucky income tax law is based on the federal income tax law in effect on December 31, 1999. The Revenue Cabinet generally follows the administrative regulations and rulings of the Internal Revenue Service in those areas where no specific Kentucky law exists.

The chart below provides a quick reference guide to the major federal/Kentucky differences. It is not intended to be all inclusive. Items not listed may be referred to the Revenue Cabinet to determine Kentucky tax treatment.

PROVISION	FEDERAL TAX TREATMENT	KENTUCKY TAX TREATMENT
1. Interest from Federal Obligations	Taxable	Exempt
2. Retirement Income from:		— — — — —
Commonwealth of Kentucky Retirement Systems	Taxable	Partially exempt if retired after December 31, 1997; exempt if retired before January 1, 1998; Schedule P may be required
Kentucky Local Government Retirement Systems	Taxable	— — — — —
Federal and Military Retirement Systems	Taxable	3-year recovery rule retained
3. Pensions and Annuities Starting After 7/1/86 and Before 1/1/90	3-year recovery rule eliminated	
4. Other Pension and Annuity Income	Taxable	100% excludable up to \$37,500; Schedule P may be required
5. Benefits from U.S. Railroad Retirement Board	May be taxable	Exempt; Schedule P may be required
6. Social Security Benefits	May be taxable	Exempt
7. Capital Gains on Sale of Kentucky Turnpike Bonds	Taxable	Exempt
8. Other States' Municipal Bond Interest Income	Exempt	Taxable
9. Kentucky Local Government Lease Interest Payments	Taxable	Exempt
10. Long-Term Care Insurance Premiums	Limited deduction as self-employed health insurance	100% adjustment to gross income
11. Medical and Dental Insurance Premiums	Limited deduction as self-employed health insurance	100% adjustment to gross income
12. Capital Gains on Property Taken by Eminent Domain	Taxable	Exempt
13. Election Workers—Income for Training or Working at Election Booths	Taxable	Exempt
14. Artistic Contributions	Noncash contribution allowed as itemized deduction	Appraised value allowed as itemized deduction or adjustment to income
15. State Income Taxes	Deductible	Nondeductible
16. Leasehold Interest—Charitable Contribution	May be deductible	Deductible; Schedule HH required
17. Kentucky Unemployment Tax Credit	No credit allowed	\$100 per certified employee; Schedule UTC required
18. Work Opportunity Credit (federal Form 5884)	Tax credit allowed; wage expense reduced by amount of credit	No credit allowed; entire wage expense is deductible
19. Welfare to Work Credit (federal Form 8861)	Tax credit allowed; wage expense reduced by amount of credit	No credit allowed; wage expense reduced by amount of federal credit
20. Child and Dependent Care Credit	Tax credit based on expenses	20% of federal credit
21. Low Income Credit	No credit allowed	Decreasing tax credit allowed
22. Recycling and/or Composting Equipment Tax Credit	No credit allowed	Tax credit allowed; Schedule RC or RC(K-1) required
23. Taxpayer who may be Claimed as Dependent on Another's Return (i.e., full-time student)	May not claim self	May claim self
24. Child's Income Reported by Parent	Permitted; taxed at parent's rate	Not permitted
25. National Tobacco Settlement and TLAP Income	Taxable	Exempt
26. Skills Training Investment Tax Credit	No credit allowed	Tax credit allowed; Schedule TC required
27. Kentucky Investment Fund Tax Credit	No credit allowed	Tax credit allowed; Schedule TC required
28. Employer GED Incentive Tax Credit	No credit allowed	Tax credit allowed; Schedule TC required

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Corporation Income and License Tax

2000 Corporation Forms Changed to Reflect Provisions of Regulation 103 KAR 20:020	January
Consolidated Corporation Income Tax Returns	September
Importance of Using Correct Corporate Account Numbers	November

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Individual Income Tax

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<i>Excel Telecommunications, Inc. v. Revenue Cabinet</i>	July
Judge Orders Tax Credit on Used Cars Purchased Out of State	January
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<i>Monumental Life Insurance Company v. Revenue Cabinet, et al</i>	July
<i>Morton Building, Inc. v. Revenue Cabinet</i>	November
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<i>Owens-Illinois Labels, Inc. v. Revenue Cabinet</i>	January
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<i>Revenue Cabinet v. Lazarus, Inc., et al</i>	July
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Averaging; Negative Taxable Income is Allowable
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KRC Tax Forms Available from *TaxFax*,
Internet January
Publications Now Available on KRC's Web Site May

Revenue Cabinet

Address Correction September
Dana Bynum Mayton Named KRC Secretary July
Good Friday Office Closure March
KRC Offices Closed for Holidays November
KRC Offices Closed for Veterans Day September
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Kentucky Use Tax on Internet, Catalog Sales
Can Be Reported on Income Tax Forms January
Streamlined Sales Tax Project September

Tax Rates

KRC Sets 2001 Tax Interest Rate at 10 Percent January
PSC Rate Set for Fiscal Year 2001-2002 July
State Real Property Tax Rate Set July

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Income Tax Assistance Available at KRC's
Taxpayer Service Centers January
KRC Offers Individual Income Tax
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Tax Refund Information Available by Phone March

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KRC can be found on the World Wide Web at <http://revenue.state.ky.us>

Tax Treatment of Anthem Demutualization

The Revenue Cabinet has received many inquiries concerning the reporting of Anthem Insurance Companies, Inc. demutualization proceeds.

Taxpayers Receiving Cash—Taxpayers received cash in exchange for their equity interests in the mutual company. A taxpayer's equity interest in a mutual company is a capital asset.

Proceeds are reportable capital gain income with a zero basis. The 1099B Date of Sale is 11/02/2001, which means that the income from the cash distribution is reportable on the 2001 tax return. Taxpayers, who held an equity interest in the mutual company as a policyholder or annuitant for more than one year, would be entitled to long-term capital gain treatment.

Taxpayers Receiving Stock—Taxpayers who received stock in exchange for equity interest will not recognize a gain or loss on the exchange. Pursuant to § 1223(1), the holding period for the stock received by the taxpayer in exchange for equity interests in the mutual company upon demutualization runs from the time that the taxpayer first acquired an equity interest in the mutual company as a policyholder or annuitant. The stock received has a zero basis.

The above information was condensed from an Internal Revenue Service Memorandum for Deputy Area Counsel (SBSE/2) dated June 29, 2001. IRS REF:Symbol: CC:IT&A:2AJPfalzgraf

TL-N-1909-01 UILNo. 1223.00-00 Holding Period of Property. Although the memorandum discusses the demutualization of a mutual life insurance company, the same principles should apply to the Anthem demutualization.

Bowling Green TSC Relocates

On Jan. 31, 2002, the Bowling Green Taxpayer Service Center will be moving from 1502 Westen Street to a new location, 201 West Professional Park Court, 42104-3278. The telephone number, (270) 746-7470, and the fax number, (270) 746-7847, remain the same.



The mission of the Kentucky Revenue Cabinet is to...
Provide courteous, accurate and efficient services for the benefit of the Commonwealth and administer Kentucky tax laws in a fair and impartial manner.

The Kentucky Revenue Cabinet
Mission Statement

COMMONWEALTH OF KENTUCKY
REVENUE CABINET
FRANKFORT, KENTUCKY 40620

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